

**REMARKS OF THE HONORABLE
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China at the Crossroads of Reform

I want to thank you for this opportunity to address you today, just at the beginning of the Chinese New Year. The U.S.-China Business Council has been one of the most active organization in providing the Administration with information and advice on developments in China and on the multitude of trade issues that have become the focus of our bilateral and multilateral trade agenda with China. Thank you for your valuable assistance.

Any discussion of trade with Asia must begin with the issue of the current financial crisis. As the President said in his State of the Union message, the countries of Asia are major customers of the United States; they are our strategic partners. Their stability bolsters our security and our domestic economic health. The world's economies are more and more interconnected and interdependent. Today, an economic crisis anywhere can affect economies everywhere. Making the negative impact of the crisis as small as possible is therefore an imperative.

We cannot expect that Asia will sort out its problems without us, and we cannot afford the consequences if it does not. As the President said, these economies must reform or recovery is impossible. We must be in a position to help them do it. And for that reason, Congress should renew our commitment to the IMF. In addition, Japan, as the world's second largest economy must play a more active role in helping to bring Asia out of its current economic crisis. Its efforts to date have been woefully inadequate. Japan must stimulate domestic demand. It must deregulate its economy. It must open up to provide a market of first resort for the tremendous productive capacity of the region.

China has a role in this process as well, and we welcome statements by Chinese officials in recent weeks, committing to exchange rate stability and economic reform.

As the 15th Peoples Congress approaches, the Chinese government stands at a crossroads. The direction that China takes as we enter the 21st century will profoundly affect Asia, America and the world for decades. China will choose its own destiny, but its decisions will affect our national interests in such diverse areas as peace and stability in Asia -- including our ongoing efforts to dismantle North Korea's nuclear weapons program -- keeping weapons of mass destruction out of unstable hands, fighting drug-trafficking, alien smuggling and international organized crime, protecting human rights and religious freedom, and making global trade and investment as free, fair and open as possible.

Engagement with China in each of these areas is crucial to our national security and to advancing fundamental American interests and values. The manner in which we engage China will help determine whether it abides by international norms and becomes integrated into the international community, or whether it becomes an unpredictable and destabilizing presence in the world.

Fifty years ago, the United States faced a great moment of decision. The decision: whether to open the nation to the challenges and opportunities of a global economy, or hide behind nostalgia and an isolationist vision.

After World War I, the United States turned inward with dire consequences. After World War II, America pursued a different course. We led the world in the creation of the institutions that are the foundation of the international economy to this day: the GATT (now the WTO), the IMF, the World Bank. The decision to open the country to international competition has created sustained prosperity for three generations of Americans -- and for the world.

Today, China faces its own great moment of decision with the inherent domestic conflicts that this generates. Analogies between systems as diverse as those of the United States and China are always dangerous. But China, too, faces a basic choice between openness and integration on the one hand, and protection and isolation on the other. We believe the choice is clear. It is in both our countries' interests for China to choose the path that establishes the rule of law, opens its economy, and provides economic growth and stability in this strategic region.

Most fundamentally, U.S. trade policy toward China acts to encourage China's openness and integration into the international economic community. We have pursued this goal through a strong complementary policy that combines bilateral, regional (APEC), and multilateral initiatives. Our bilateral trade agreements cover specific segments of U.S. trade, but have also served to build the foundation for progress in China's WTO accession negotiations. China's accession to the WTO is critical to creating an effective framework for our trade relationship.

Our efforts on trade cannot be separated, in turn, from the broader considerations of creating a more open, rules-based society in China. Reforms of China's legal system, enactment of new laws and regulations, and notions of due process and transparency all build a better trade relationship and, in part, will spring from that relationship. In the WTO accession negotiations, as in the case of our negotiations on intellectual property rights (IPR) enforcement and other bilateral areas, we are working with China to create a regime that strengthens the legal system and the rule of law in general.

Embedded in each of our bilateral agreements -- in particular a hallmark of the intellectual property rights agreements -- are broader international norms to which China has committed: transparency of laws and procedures, access to administrative or judicial decision making, curbs on the arbitrary exercise of bureaucratic discretion. Each of our ongoing negotiations -- in the context of China's accession to the WTO and bilaterally, on services, market access and IPR -- is

also grounded in international norms and practices and in the necessity of adherence to a rules-based regime.

If we look at the agreement on the protection of intellectual property rights, we see most obviously a case of clear U.S. economic interest: eliminating theft through piracy of our most creative industries. But the agreements we reached with China did more than simply establish an advantageous environment for U.S. business. Those agreements also embody increased access for and to America's idea industries -- books, films, music, and software. Beyond this, embedded in the agreements are the seeds of important American ideals: the development and publication of laws; consistency in decision making; recourse to law enforcement; the availability of administrative and judicial proceedings and greater transparency in the processes of government.

Adherence to these ideals by China requires political will. But the foundation established in the IPR and other agreements, all contribute toward the development of a broader and deeper concept -- that is, the development of the rule of law. And the foundation that our bilateral agreements have laid are the bases on which negotiations on China's integration into the world trading system will advance.

The progress that was achieved last year on China's accession to the WTO in the areas of IPR, transparency and judicial review owe their genesis to our underlying bilateral agreements. These commitments were also the building blocks for progress in the WTO on other key rules and principles:

- ▶ On trading rights -- the right to import and export products, both manufactured and agricultural;
- ▶ On non-discrimination -- elimination of practices that discriminate against imported goods and foreign producers of goods in China such as dual pricing;
- ▶ On agriculture -- the commitment not to use export subsidies;
- On uniform application of all laws affecting trade in goods and services, such as tariffs and licensing requirements.

But China's integration into the world trading system and its accession to the WTO is not dependent solely on commitments to internationally agreed rules and principles. Equally important are the market access obligations of the WTO and, for an acceding country such as China, those obligations are substantial. Since the GATT was founded in 1947, contracting parties have engaged in seven rounds of trade negotiations, the last being the Uruguay Round, the benefits of which have been extended to China. And since the Uruguay Round, we have completed global agreements on information technology, basic telecommunications services and, most recently, global financial services, including banking, securities and insurance. China will

have to assume obligations commensurate with its place as a major trading power and with the benefits it receives.

Having made progress on some of the key WTO rules and principles, market access negotiations advanced late last year for the first time in several years, at the Presidential summit in Washington and later, in Vancouver at the APEC Trade Ministers meeting and at the two Presidents' bilateral meeting.

At the summit in Washington, President Jiang committed that China will join the Information Technology Agreement (ITA) as soon as possible. The ITA calls for the elimination of tariffs on all information technology products such as computers, semiconductors, telecommunications and other related equipment generally by the year 2000. These are the growth areas of the 21st century. China's commitment to join the ITA represented a dramatic shift in China's policy since, previously, China had refused to participate in any zero-for-zero sectoral arrangements. This commitment is independent of China's accession to the WTO.

The other major achievement of the summit was the expressed recognition by President Jiang that the basis for accession would be on commercially meaningful, not political, terms. Up until December 1994, when China had hoped to enter the WTO as a founding member, China had pressed to accede to the WTO on a political basis. China, like many other countries, misinterpreted the nature of the WTO. It is not a political institution. It embodies, instead, a comprehensive contractual arrangement among trading partners that defines the principles and terms on which trade will take place. The binding dispute settlement process underscores the contractual nature of the arrangement. China's explicit recognition that the terms of accession are commercial, not political, demonstrated that a firmer foundation for real negotiations exists.

Further progress on market access was achieved in Vancouver at the two Presidents' bilateral meeting in the context of the APEC Ministerial and Leaders meeting. China's Trade Minister Wu Yi, as confirmed by her President, made a number of proposals that form the basis for more serious negotiations on market access for goods. Minister Wu proposed:

- to significantly reduce tariffs for agricultural and manufactured products, generally by the year 2000, and to sharply limit the number and range of tariff peaks;
- to participate fully in other zero-for-zero sectoral arrangements;
- to eliminate all non-tariff measures affecting manufactured products, generally by the year 2000, and to provide substantial import growth during the phase out period.

In addition to the proposals that Minister Wu made, China provided a new offer on services. While we remain far apart on this critical area, we have begun for the first time to discuss the defining principles of market access for services, principles such as the form of

establishment -- whether wholly owned, branch, or joint venture -- comprehensive coverage of services sectors, and elimination of geographic and numerical restrictions..

Our engagement with China on trade -- whether in Geneva, the summit in Washington, or in Vancouver -- has resulted in important progress on China's WTO accession. Much more work is, however, necessary on the complex issues of market access and WTO rules. For example, U.S. market access requests have yet to be fully addressed. While China presented a new services offer, important areas like distribution, telecommunications, financial and professional services were not approached in ways that are commercially meaningful. In addition, negotiations on agricultural market access, a traditionally contentious area of negotiations with every country, have only just begun. Finally, additional work remains on WTO rules covering such critical areas as standards, technology transfer, trade related investment measures and adequate safeguards. The substantial economic role of China's state-owned enterprises gives rise to a number of serious issues which must also be addressed.

It will take hard work and political commitment to achieve a commercially meaningful agreement, one based on the principles of the WTO. The trade deficit, which has more than doubled over the last four years, further complicates the situation. Chinese buying missions, like the one that preceded the Summit, are welcome but do not solve limitations on market access for U.S. manufactured goods, agriculture and services. Yet, while the task ahead of us is considerable, the progress made in the last year is both important and encouraging.

Let me take a final moment to review briefly the bilateral trade agenda with China and its intersection with the WTO accession process. We are concerned about the failure to resolve longstanding sanitary and phytosanitary issues affecting citrus, pacific-Northwest wheat, pork and poultry. These could precipitate disputes like those involving IPR and textiles. China's practice of granting licenses for e.g., insurance providers on an experimental basis pits company against company and country against country. This piecemeal approach increases tensions.

Equally important, China has taken certain recent protectionist measures that have adversely affected U.S. interests. For example, in October, China raised the tariff on soybean oil to 20%. That increase occurred just at the time when U.S. soybean oil products were entering world markets. Because of pressure from the United States, China has since reversed that tariff increase but it demonstrates that on the bilateral side, we cannot stand still waiting with the systemic changes that WTO accession will bring.

Nowhere is the necessity for a strong bilateral approach more evident than in the case of intellectual property rights. Our efforts over the last four years, including two bilateral agreements, have generated positive results:

- China has closed 58 CD and CD-ROM production lines and the Chinese have destroyed the masters and molds being used to produce these products.

- China has arrested more than 250 people for IPR piracy and imposed prison sentences of up to 17 years.
- China has seized more than six millions CD's illegally smuggled into China.

More efforts are necessary to increase market access for legitimate products and to combat piracy, especially “end-user” software piracy by public and private entities. But we have used a consistent and forceful approach to bring China’s IPR laws and enforcement up to world standards. Most important, our bilateral efforts have helped to establish the infrastructure so important to guarantee that protection will continue and improve.

Conclusion

The integration of China into the international trading system is in the interests of both China and the United States. Accomplishing this objective will require intensive efforts. It is not easy, but we have established important momentum. With respect to the WTO, the pace of accession remains in China’s hands. Most important, it is substance that will drive those negotiations. There are some who would argue that China should be admitted now and “deal with the problems later.” The rising trade deficit, the role of state-owned enterprises in China’s economy, the uncertain shape of current reform efforts, and a weak legal regime are but a few of the many reasons why this position is untenable. We are far better off ensuring that all parties understand the obligations that WTO membership brings, starting off on the best foot possible. The U.S.-China relationship is crucial. It is important to the nation and to the world. We cannot ignore the problems, we need to solve them.

Thank you.